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State of Montana Board of Investments 1977-1978 Fiscal Year Report

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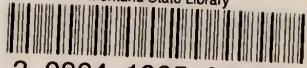
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INTRODUCTION

The Board of Investments completed its seventh year of operations as of June 30, 1978. During the seven years, the Board has accomplished several objectives. Among them are:

1. **The centralization of all state investments**—Bringing all investments under the Board's control has made the investment process more efficient and reduced the expense of managing state investments. Further, the investment records are audited annually and performance records are compared to national norms, thus making the whole process more open and accountable to Montanans. Management expenses have been reduced by eliminating duplicative efforts and consequently, management costs approximate only 0.04 percent of total investments.
2. **The substantial increase in investment income**—Annual investment income has grown from below \$20 million to over \$54 million during the seven years. This growth traces largely to a substantial reduction in non-interest bearing demand deposits and to an active bond-swapping program.
3. **The increased emphasis on intra-state investment**—The primary vehicles for intra-state investment are Montana certificates of deposit and Montana mortgages. Over the past two years, the amount invested in Montana certificates of deposit has grown from \$44.9 million to \$71.2 million. Over the same period, Montana mortgages have increased from \$42.3 million to \$57.9 million. The growth rates for both these intra-state investments exceeds the growth of total invested funds and reflects the Board's commitment to these important investments.
4. **The broadening of the investment division to include the Short-Term Investment Pool and a Common Stock program**—Both the Short-Term Investment Pool (STIP) and the Common Stock program have been in existence for five years. STIP has provided a short-term investment option to local governments, universities, and state agencies. It has enhanced fiscal cash management by providing liquidity and an attractive return. The Common Stock program has provided further investment diversification of retirement funds. Over the five year period, the common stock portfolio has resulted in outstanding yields relative to the national norms.

Future objectives of the Board include the establishment of a common stock pool that will allow the smaller retirement funds to participate in a common stock program. Moneymax, a computerized short-term investment system, will be installed in 1978. This system will provide portfolio accounting, and cash flow and investment analysis.

TOTAL INVESTMENT INCOME

June 30, 1977 _____ \$47,313,627

June 30, 1978 _____ \$54,276,875

Up 14.7%

	% OF TOTAL	AMOUNT*
Public Employees' Retirement System Fund	23.4	\$186,388,193
	22.7	160,855,338
Treasurer's Fund	23.2	185,424,317
	24.3	172,407,748
Teachers' Retirement System Fund	19.2	152,930,680
	19.1	135,523,819
Trust and Legacy Fund	10.9	87,290,945
	11.0	78,069,097
Workers' Compensation Fund	7.0	55,881,390
	7.2	51,328,111
Other Retirement Funds <input type="checkbox"/>	2.1	16,760,015
	2.0	14,405,185
Social Security Fund	1.5	11,568,853
	1.4	9,942,202
Resource Indemnity Fund	1.3	10,637,558
	1.2	8,214,869
Various University Funds <input type="checkbox"/>	1.1	8,847,631
	1.2	8,615,448
Educational Trust Fund	1.0	8,233,573
	0.8	5,735,350
Common School Interest & Income Fund	0.9	7,273,127
	0.8	5,255,348
Long Range Building Fund	0.8	6,304,025
	1.4	9,744,865
Permanent Coal Trust Fund	0.8	6,262,370
	-0-	-0-
Long Range Building Sinking Fund	0.4	3,373,891
	0.5	3,395,524
Federal Revenue Sharing Funds	0.1	373,298
	0.3	2,138,874
Other Funds <input type="checkbox"/>	3.4	27,417,050
	3.4	24,453,557
Other STIP <input type="checkbox"/>	2.9	23,181,364
	2.7	19,332,033
TOTAL	100.0	\$798,148,280
	100.0	\$709,417,368

SOURCE OF INVESTMENTS

FISCAL 77/78 
 FISCAL 76/77 

OPERATIONS 1977-1978

Market Behavior

The dominant characteristic of capital markets during Fiscal 1978 was the increase in interest rates and the decline in common stock prices. As is illustrated on page 5, short-term interest rates increased sharply during the year while long-term interest rates rose moderately. Average rates on bankers' acceptances, for example, increased by 31 percent to 6.64 percent from the 5.05 percent average for the previous fiscal year. Average rates on commercial paper, another short-term instrument, rose to 6.60 percent, a 28 percent increase over the 5.14 percent in Fiscal 1977. Average rates on long-term AAA corporate bonds increased one percent from 8.17 percent to 8.29 percent. Common stock prices declined during the year as evidenced by the decline of 11 and 5 percent respectively in the Dow-Jones Industrials and the Standard and Poor's 500 indices.

The increase in short-term rates was much more pronounced than it was in long-term rates. Consequently, portfolios such as the Treasurer's Fund and the Short-Term Investment Pool, with a larger portion of short-term holdings, were most advantageously affected by this market occurrence.

Board Performance

In Fiscal 1978, the Board managed 32 major funds including the Short-Term Investment Pool which has 96 state and local participants.

Total investments, stated at cost, increased 12 percent over the previous fiscal year-end to a record \$798.1 million. Total investment income reached a record \$54.3 million; 15 percent over Fiscal 1977.

The average portfolio yield on all funds was 7.47 percent compared to 7.33 percent in Fiscal 1977. The higher yield traces to the higher levels of interest rates mentioned previously. The overall portfolio yield increased by 2 percent compared to a 1 percent increase in long-term interest rates and over 28 percent in short-term interest rates. Said differently, the average portfolio yield increased more than long-term market rates but less than short-term market rates. These results were expected as a greater portion of the funds are invested in long-term as opposed to short-term instruments.

Fiscal 1978 marked the second year that the Board used the continuous bond performance system to compliment the common stock performance measurement system. Both systems compare Montana's investment performance to other portfolios throughout the country and to relevant market indices. Generally, five years is considered to be a representative time period for analyzing performance, so only limited conclusions can be drawn from one-year comparisons.

The actual common stock and bond performance statistics are presented in detail on page 15. For three years, Montana's common stock investment performance has been superior to over 75 percent of the more than 3000 professionally-managed common stock programs examined in a national survey as well as the popular stock market indices. For two years, Montana's bond investment performance has been superior to over 50 percent of the more than 3000 professionally-managed bond programs surveyed as well as one of the two popular bond market indices. For Fiscal 1978, Montana's common stock portfolio outperformed more than 50 percent of all money managers surveyed as well as the popular stock market averages. Montana's Fiscal 1978 bond performance was superior to the Salomon Brothers Bond Index, but was below the performance of over 50 percent of all bond programs surveyed.

On a time weighted basis, Montana's annual rate of return for common stocks during the last three fiscal periods has been 8.60 percent; during the last two fiscal periods the bond yield has been 7.10 percent. In contrast, the stocks included in the Standard and Poor's 500 Stock Index yielded 4.70 percent and the Salomon Brothers Bond Index showed a yield of 6.90 percent. Further, the survey referred to earlier revealed that 75 percent of the common stock managers reported rates of return of less than 5.70 percent and 50 percent of the bond managers reported rates of return of less than 7.00 percent.

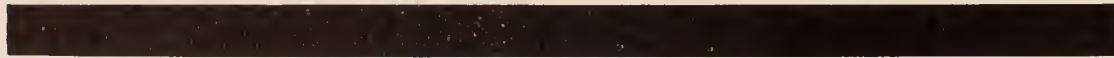
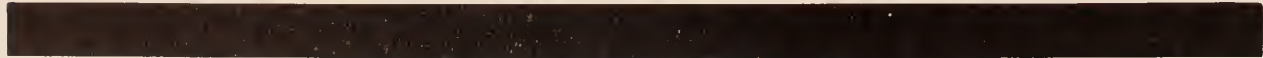
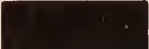
During Fiscal 1978, Montana's common stocks registered a 3.30 percent rate of return; Montana's bond portfolio yielded a -0.30 percent. This compares to 0.10 percent and -0.80 percent for the Standard and Poor's 500 Stock Index and the Salomon Brothers Bond Index respectively. In addition, 50 percent of all programs surveyed showed yields below 2.30 percent for stocks and 1.50 percent for bonds.

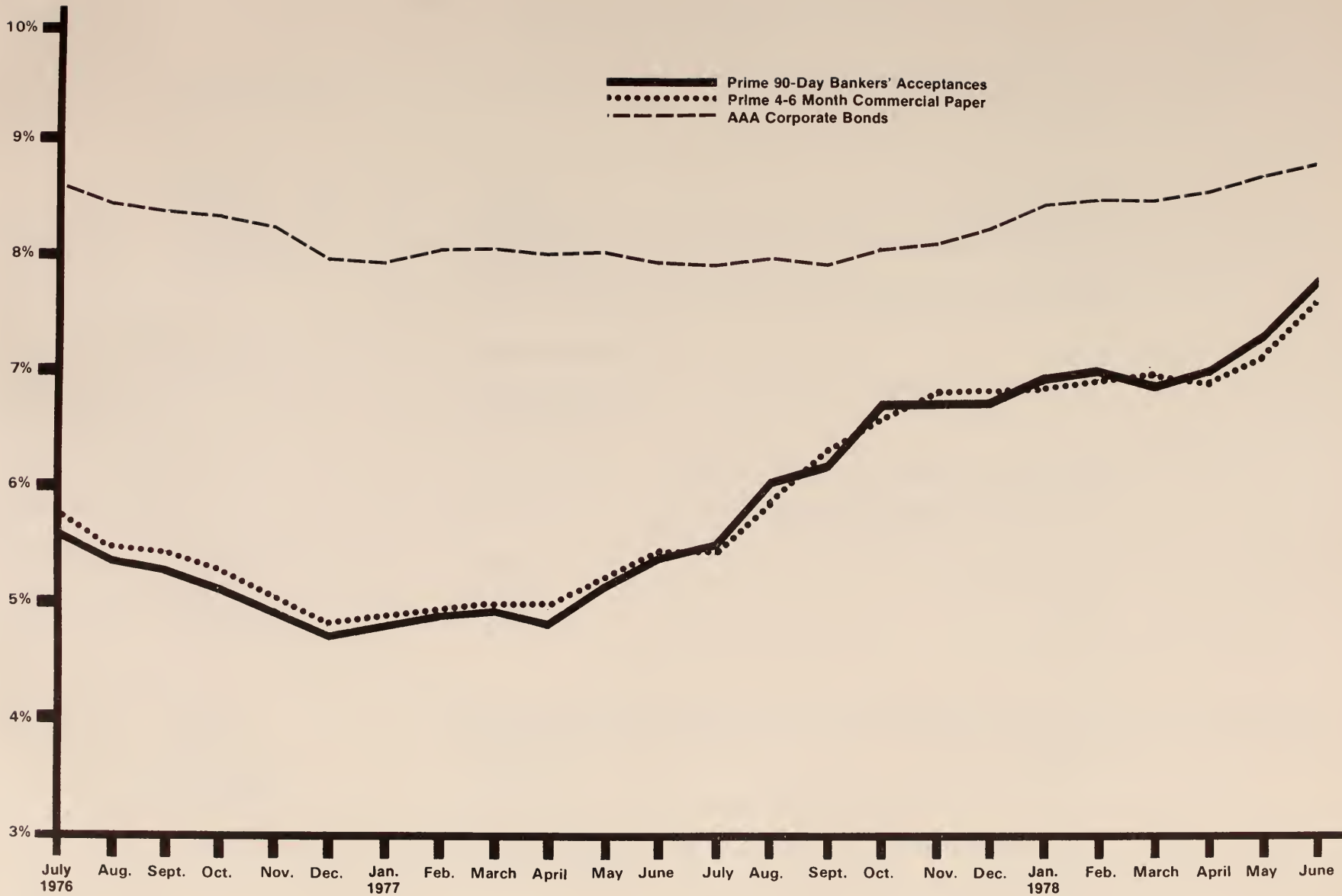
Board Activity

Security transactions totalled \$11 billion during Fiscal 1978. This is considerably above the 1977 fiscal period total of \$9.6 billion. The number of security transactions totalled 2,780 which is slightly below the previous year's 2,809. Short-term activity accounted for 99 percent of the dollar volume with the majority of this activity involving money-market instruments.

In compliance with statutory requirements, the investment records have been audited annually since the Board's inception. The audit for Fiscal 1978 has been completed.

TOTAL INVESTMENTS AT COST

	
June 30, 1977	\$707,646,288
	
June 30, 1978	\$796,313,172
	Up 12.5% 

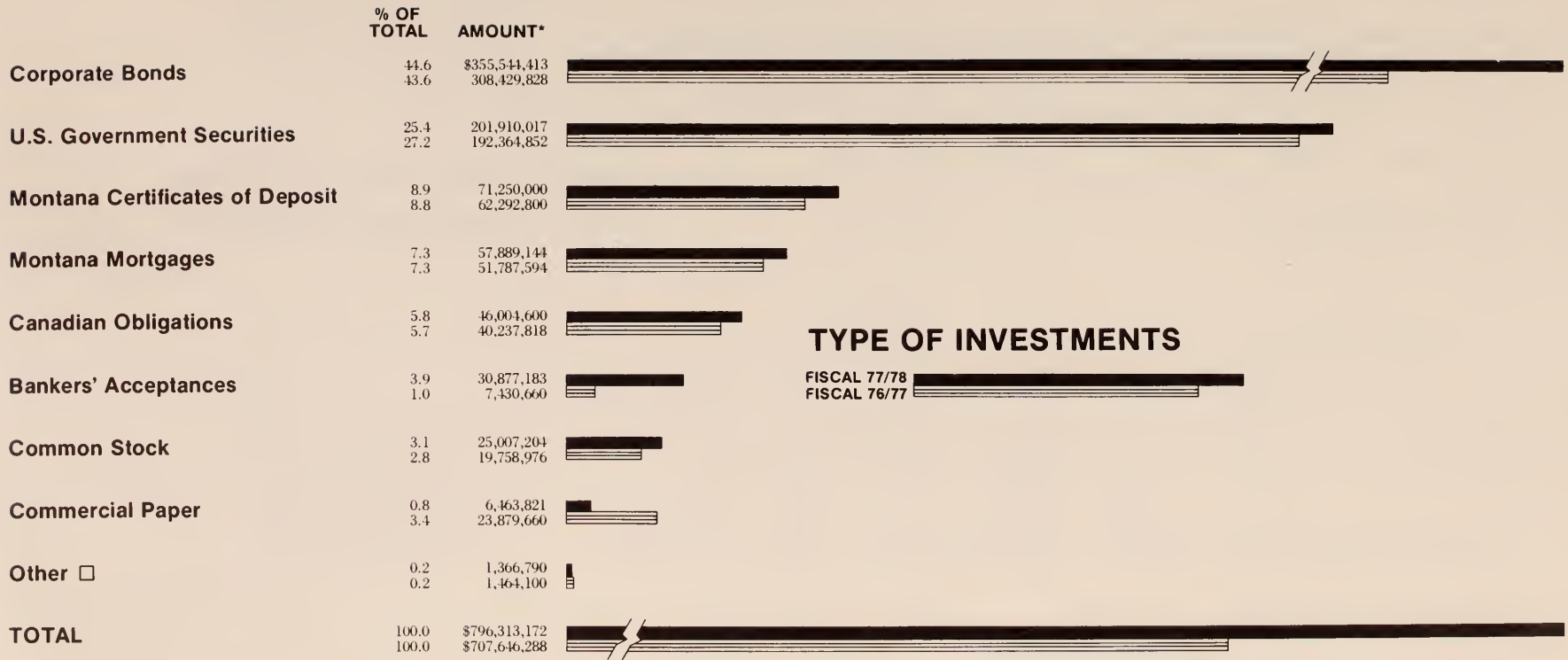


Source: U.S. Dept. of Commerce, *Survey of Current Business*, July 1976 to July 1978.

**SUMMARY OF SECURITY TRANSACTIONS
FISCAL YEAR 1977-1978**

SHORT-TERM	PAR VALUE	COST/PROCEEDS
PURCHASES:		
Bankers' Acceptances	\$ 177,163,901	\$ 175,723,950
Certificates of Deposit	45,800,000	45,800,000
Commercial Paper	130,400,000	129,841,402
Government Securities	345,280,000	343,084,631
Repurchase Agreements	<u>10,010,272,610</u>	<u>10,010,272,610</u>
TOTAL	<u>\$10,708,916,511</u>	<u>\$10,704,722,593</u>
SALES:		
Short-Term	<u>\$ 197,925,000</u>	<u>\$ 197,476,933</u>
TOTAL SHORT-TERM TRANSACTIONS	<u>\$10,906,841,511</u>	<u>\$10,902,199,526</u>
 LONG-TERM		
PURCHASES:		
Common Stock—Shares 219,938	\$ 0	\$ 6,045,239
Corporate Bonds	61,918,469	61,502,641
Government Securities	36,500,000	36,436,257
Mortgages	<u>13,694,187</u>	<u>13,513,648</u>
TOTAL	<u>\$ 112,112,656</u>	<u>\$ 117,497,785</u>
SALES:		
Common Stock—Shares 33,022	\$ 0	\$ 1,104,351
Corporate Bonds	7,147,000	7,076,306
Government Securities	<u>10,130,000</u>	<u>10,122,224</u>
TOTAL	<u>\$ 17,277,000</u>	<u>\$ 18,302,881</u>
TOTAL LONG-TERM TRANSACTIONS	<u>\$ 129,389,656</u>	<u>\$ 135,800,666</u>
TOTAL TRANSACTIONS	<u>\$11,036,231,167</u>	<u>\$11,038,000,192</u>

TOTAL NUMBER OF TRANSACTIONS 2,780



TYPE OF INVESTMENTS

FISCAL 77/78
FISCAL 76/77

* Stated at Cost
 See Schedule B

	% OF CHANGE	AMOUNT	
Public Employees' Retirement System Fund	21.5 18.7	\$13,194,421 10,862,271	
Teachers' Retirement System Fund	17.7 18.0	10,712,381 9,099,279	
Treasurer's Fund	7.6 (6.7)	10,647,439 9,894,208	
Trust and Legacy Fund	14.1 10.6	5,639,278 4,942,025	
Workers' Compensation Fund	19.5 33.8	4,233,749 3,542,689	
Other Retirement Funds	21.7 33.3	1,198,206 984,871	
Resource Indemnity Fund	46.5 47.6	696,050 475,082	
Social Security Fund	23.5 7.0	606,068 490,677	
Long Range Building Fund	(20.3) (9.6)	597,611 749,531	
Various University Funds	(13.3) (5.1)	500,073 576,905	
Educational Trust Fund	50.1 551.7	358,802 239,115	
Long Range Building Sinking Fund	(12.9) (4.6)	218,203 250,583	
Permanent Coal Trust Fund		86,780 -0-	
Federal Revenue Sharing Funds	(72.5) 115.7	86,697 315,106	
Other Funds	6.2 90.9	2,288,308 2,153,872	
Other STIP	9.7 20.5	1,508,193 1,374,348	
TOTAL	14.4 15.3	\$52,572,259 \$45,950,562	

TOTAL INVESTMENT INCOME*

FISCAL 77/78
FISCAL 76/77

TREASURER'S FUND

By year-end, the Treasurer's Fund (surplus treasury cash) was the second largest fund managed by the Board. All receipts are deposited to the treasury, just as all state obligations are paid from this fund; consequently, the invested balance is subject to wide fluctuations and liquidity is a primary objective. Thus, the portfolio is invested predominantly in short-term investments, frequently on an overnight basis.

As of June 30, 1978, the invested balance, stated at cost, was \$185.4 million, 8 percent above the Fiscal 1977 year-end figure. Investment income increased 11 percent to \$10.8 million. The yield on the portfolio, calculated by dividing yearly income by the average daily invested balance of \$157.4 million, was 6.88 percent for Fiscal 1978 compared to 6.28 percent for Fiscal 1977.

The increased yield is explained by what happened in the short-term money markets. As mentioned previously, short-term rates increased during Fiscal 1978 and the Treasurer's Fund is invested almost entirely in short-term securities.

In the seven years of Board management, investment income of nearly \$57 million has been earned by the Treasurer's Fund.

ANALYSIS OF INVESTMENTS

TYPE:	Fiscal COST	76/77 %	Fiscal COST	77/78 %	% CHANGE
Montana Certificates of Deposit	\$ 5,450,000	3.2	\$ 1,400,000	0.8	(74.3)
Repurchase Agreements	55,180,000	32.0	55,700,000	30.0	0.9
U.S. Treasury Obligations	—0—	—0—	1,866,440	1.0	100.0
Corporate Obligations	7,961,103	4.6	17,020,991	9.2	113.8
Short-Term Investment Pool	<u>103,816,645</u>	<u>60.2</u>	<u>109,436,886</u>	<u>59.0</u>	<u>5.4</u>
TOTAL INVESTMENTS	<u><u>\$172,407,748</u></u>	<u><u>100.0</u></u>	<u><u>\$185,424,317</u></u>	<u><u>100.0</u></u>	<u><u>7.5</u></u>

SHORT-TERM INVESTMENT POOL

Fiscal 1978 marked the fifth year the Board has managed the Short-Term Investment Pool (STIP). During that year, STIP had 96 participants including 6 university units, 51 local governments, and 39 state accounts.

Participants have benefitted significantly from investments in STIP. Having this investment option has helped reduce idle cash balances, thereby generating more investment income and easing cash flow problems for participants. The State's efforts to aid localities in obtaining the highest possible yield on their short-term investments has certainly been enhanced by STIP.

STIP provides a short-term alternative for participants who have a relatively small amount to invest. Minimum participation is approximately \$1,000 and any Montana city, county, school district, or political subdivision may invest in it. STIP provides excellent liquidity while generating an attractive return. It offers an opportunity to improve local cash management because non-interest bearing demand deposit balances can be reduced significantly without impairing liquidity.

The gradual shift in the maturity structure which occurred in Fiscal 1977 continued during Fiscal 1978. Based upon cash flow analysis of previous years, a greater percentage of the pool was shifted from short-term to intermediate-term investments and these longer-term investments commanded higher rates of return. Long-term investments comprise 7 percent of the portfolio; 54 percent is invested in intermediate-term securities; and the remaining 39 percent is invested in short-term instruments.

During Fiscal 1978, the Board of Investments channeled more funds directly into the State's economy by increasing STIP investments in Montana certificates of deposit by 24 percent—from \$56.2 million in fiscal 1977 to a record \$69.6 million in Fiscal 1978. As of June 30, 1978 investments in STIP equalled a book value of \$170.7 million. The Fiscal 1978 average daily invested balance was \$170.6 million.

For Fiscal 1978, participants in STIP earned an average return of 7.15 percent compared to the 6.76 percent during Fiscal 1977. This increased yield traces to the general rise in short-term interest rates.

ANALYSIS OF INVESTMENTS

TYPE:	Fiscal COST	76/77 %	Fiscal COST	77/78 %	% CHANGE
Montana Certificates of Deposit	\$ 56,250,000	34.1	\$ 69,600,000	40.8	23.7
Repurchase Agreements	28,106,000	17.0	8,400,000	4.9	(70.1)
U.S. Treasury Obligations	21,474,688	13.0	38,343,448	22.5	78.6
Government Agency Obligations	21,748,281	13.0	34,128,912	20.0	56.9
Canadian Obligations	6,862,500	4.2	5,843,450	3.4	(14.8)
Corporate Obligations	30,566,267	18.5	14,401,677	8.4	(52.9)
TOTAL INVESTMENTS	<u>\$165,007,736</u>	<u>100.0</u>	<u>\$170,717,487</u>	<u>100.0</u>	3.5

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND

The Public Employees' Retirement System Fund (PERS) became the largest fund under the Board's management during Fiscal 1978. PERS is invested predominantly in long-term instruments. Since liquidity is not a primary objective, short-term investments are held to a minimum. While PERS and the Teachers' Retirement System are the only funds participating in a common stock investment program, over 90 percent of these portfolios are invested in fixed-income obligations.

As of June 30, 1978, the PERS invested balance, stated at book value, reached a record \$186.4 million, a 16 percent increase over the previous year's \$160.9 million. Investment income for the year increased 19 percent to \$13.5 million and the portfolio yield was 8.10 percent compared to the previous year's 7.87 percent. This yield growth was expected as long-term interest rates increased during the year.

Only 7 percent of PERS's portfolio is invested in common stocks; that is well below the 20 percent statutory maximum. The Board's policy has been one of gradual commitment to common stocks from net cash inflows. This precludes the liquidation of any investment for the purpose of purchasing common stock investments.

The common stock and bond performance statistics are presented on page 15. As mentioned in the introduction, single year comparisons are not too meaningful. Looking at the past 3 years, the PERS common stock portfolio has substantially outperformed well over 75 percent of all professionally managed common-stock portfolios in the A.G. Becker survey as well as both stock market indices. On a time-weighted basis, the annual rate of return for the PERS common stock portfolio over that period was 8.60 percent compared to 4.70 percent for the Standard and Poor's 500 Stock Index and 5.70 percent or less for 75 percent of the common stock portfolios surveyed.

Over the past two fiscal periods, the PERS bond portfolio has outperformed more than 50 percent of the professionally managed bond portfolios in the A.G. Becker survey. On a time-weighted basis, the annual rate of return for the PERS bond portfolio was 7.40 percent compared to 6.90 percent for the Salomon Brothers Bond Index, and 7.00 percent or less for 50 percent of the bond portfolios surveyed.

During Fiscal 1978, PERS's common stock portfolio yielded 3.30 percent versus 0.10 percent for the Standard and Poor's 500 Stock Index and 2.30 percent or less for 50 percent of all common stock managers surveyed. In the same period, PERS's bond portfolio yielded 0.00 percent. This compares to -0.80 percent for the Salomon Brothers Bond Index and 1.50 percent or less for 50 percent of all bond programs surveyed.

ANALYSIS OF INVESTMENTS

TYPE:	Fiscal COST	76/77 %	Fiscal COST	77/78 %	% CHANGE
Montana Obligations	\$ 1,096,787	0.7	\$ 1,008,260	0.5	(8.1)
Repurchase Agreements	—0—	—0—	300,000	0.2	100.0
U.S. Treasury Obligations	483,613	0.3	484,337	0.3	0.1
Government Agency Obligations	2,333,050	1.4	2,696,869	1.4	15.6
U.S. Govt. Guaranteed Obligations	3,988,733	2.5	5,038,981	2.7	26.3
Canadian Obligations	9,930,929	6.2	12,378,927	6.6	24.7
Corporate Obligations	107,577,486	66.9	121,734,900	65.3	13.2
Convertible Bonds	855,000	0.5	855,000	0.5	—0—
Common Stock	9,890,827	6.1	12,514,942	6.7	26.5
Montana Mortgages	24,547,724	15.3	29,229,608	15.7	19.1
Land and Building	151,189	0.1	146,369	0.1	(3.2)
TOTAL INVESTMENTS	<u>\$160,855,338</u>	<u>100.0</u>	<u>\$186,388,193</u>	<u>100.0</u>	<u>15.9</u>

TEACHERS' RETIREMENT SYSTEM FUND

The Teachers' Retirement System Fund is the third largest fund managed by the Board of Investments. On June 30, 1978, total investments, stated at book value, were \$152.9 million or 13 percent above the previous fiscal year's \$135.5 million. Investment income increased 18 percent to \$11.1 million. The Fiscal 1978 portfolio yield was 8.00 percent compared to 7.68 percent for the prior year. This increase in yield was expected as long-term interest rates rose during the year.

The Teachers' Retirement System and the Public Employees' Retirement System participate equally in the common stock investment program. At present, 8 percent of the fund is invested in common stocks—an amount well below the 20 percent statutory maximum. Board policy has been to gradually build the common stock portfolio from net cash inflow rather than to liquidate existing investments to purchase common stocks.

The common stock and bond performance statistics are presented in detail on page 15. Over the past three years, the Teachers' Retirement System's common stock portfolio has significantly outperformed over 75 percent of all professionally managed common stock portfolios in the A.G. Becker survey as well as both stock market indices. On a time-weighted basis, the annual rate of return for the stock portfolio over the past three years was 8.60 percent compared to 4.70 percent for the Standard and Poor's 500 Stock Index and 5.70 percent or less for 75 percent of the common stock portfolios surveyed.

Fiscal 1978 was the second year the continuous bond performance measurement system was used by the Board. On a time-weighted basis, the Teachers' Retirement System's bond portfolio had an annual rate of return of 7.30 percent over that two year period. The Salomon Brothers Bond Index showed 6.90 percent and 50 percent of the bond portfolios surveyed yielded 7.00 percent or less.

For Fiscal 1978, the Teachers' Retirement System's common stock portfolio yielded 3.30 percent compared to 0.10 percent for the Standard and Poor's 500 Stock Index and 2.30 percent or less for 50 percent of all common stock managers surveyed. In the same period the Teachers' Retirement System's Bond portfolio showed a 0.60 percent return versus -0.80 percent for the Salomon Brothers Bond Index and 1.50 percent or less for 50 percent of all bond programs surveyed.

ANALYSIS OF INVESTMENTS

TYPE:	Fiscal COST	76/77 %	Fiscal COST	77/78 %	% CHANGE
Repurchase Agreements	\$ 2,100,000	1.5	\$ —0—	—0—	(100.0)
U.S. Treasury Obligations	483,613	0.4	484,337	0.3	0.1
Government Agency Obligations	1,154,385	0.8	1,625,327	1.1	40.8
U.S. Govt. Guaranteed Obligations	3,477,145	2.6	5,413,969	3.5	55.7
Canadian Obligations	11,526,598	8.5	13,474,460	8.8	16.9
Corporate Obligations	78,735,138	6.4	89,716,903	58.7	13.9
Convertible Bonds	1,484,882	1.1	1,480,860	1.0	(0.3)
Common Stock	9,868,149	7.3	12,492,262	8.2	26.6
Montana Mortgages	26,527,785	19.6	28,080,401	18.3	5.9
Land and Building	166,124	0.1	162,161	0.1	(2.4)
TOTAL INVESTMENTS	<u>\$135,523,819</u>	<u>100.0</u>	<u>\$152,930,680</u>	<u>100.0</u>	12.8

TRUST AND LEGACY FUND

The Trust and Legacy Fund is the fourth largest fund managed by the Board of Investments. In Fiscal 1978, the invested balance grew 12 percent to \$87.3 million. Investment income for the year also increased 12 percent to \$5.9 million. The portfolio yield for Fiscal 1978 was 7.41 percent compared to 7.28 percent during Fiscal 1977.

Through an active bond swapping program, the Trust and Legacy Fund's investment yield increased substantially over the years—from 4.20 percent during Fiscal 1972 to 7.41 percent during Fiscal 1978.

For the past two fiscal periods, Trust & Legacy's bond performance, on a time-weighted basis, yielded a 6.50 percent annual rate of return or below the 7.00 percent or less for 50 percent of all bond portfolios in the A.G. Becker survey and the 6.90 percent for the Salomon Brothers Bond Index.

During Fiscal 1978, Trust and Legacy's bond portfolio yielded a -2.50 percent return compared to -0.80 percent for the Salomon Brothers Bond Index and 1.50 percent or less for 50 percent of all bond managers surveyed. The performance statistics are presented on page 15.

ANALYSIS OF INVESTMENTS

TYPE:	Fiscal COST	76/77 %	Fiscal COST	77/78 %	% CHANGE
Repurchase Agreements	\$ 500,000	0.7	\$ 1,826,000	2.1	265.2
U.S. Treasury Obligations	955,221	1.2	955,333	1.1	—0—
Government Agency Obligations	4,475,350	5.7	3,787,206	4.3	(15.4)
U.S. Govt. Guaranteed Obligations	18,286,464	23.4	19,104,653	21.9	4.5
Canadian Obligations	4,210,889	5.4	5,716,181	6.6	35.7
Corporate Obligations	49,641,173	63.6	55,901,572	64.0	12.6
TOTAL INVESTMENTS	<u>\$78,069,097</u>	<u>100.0</u>	<u>\$87,290,945</u>	<u>100.0</u>	11.8

WORKERS' COMPENSATION

The Workers' Compensation Fund is derived from the monies of the state-administered industrial accident insurance program.

Total investments, stated at book value, increased 9 percent to \$55.9 million during Fiscal 1978. Investment income increased 18 percent to \$4.4 million during the same period. The portfolio yield for Fiscal 1978 was 8.46 percent compared to the previous year's 8.29 percent. This yield increase was expected as long-term interest rates rose during the year.

During the last two fiscal years, the Fund's bond portfolio yielded 7.20 percent annually versus 7.00 percent or less for 50 percent of the bond portfolios included in a national survey and 6.90 percent for the Salomon Brothers Bond Index.

In Fiscal 1978, the Fund's bond portfolio had a time-weighted rate of return of 0.90 percent compared to -0.80 percent for the Salomon Brothers Bond Index and 1.50 percent or less for 50 percent of all bond managers surveyed. The performance statistics are presented on page 15.

ANALYSIS OF INVESTMENTS

TYPE:	Fiscal COST	76/77 %	Fiscal COST	77/78 %	% CHANGE
Repurchase Agreements	\$ 2,500,000	4.9	\$ 600,000	1.1	(76.0)
U.S. Treasury Obligations	483,613	0.9	484,337	0.9	0.1
Government Agency Obligations	400,000	0.8	400,000	0.7	-0-
U.S. Govt. Guaranteed Obligations	3,000,000	5.8	4,481,000	8.0	49.4
Canadian Obligations	5,788,398	11.3	6,278,831	11.2	8.5
Corporate Obligations	38,647,219	75.3	43,198,017	77.3	11.8
Montana Mortgages	508,881	1.0	439,205	0.8	(13.7)
TOTAL INVESTMENTS	<u>\$51,328,111</u>	<u>100.0</u>	<u>\$55,881,390</u>	<u>100.0</u>	8.9

PERFORMANCE COMPARISONS

Annualized Time-Weighted Total Rates of Return

COMMON STOCK:

	<u>3 Years</u> 1976-78	<u>Fiscal</u> <u>Year</u> 1976 %	<u>Fiscal</u> <u>Year</u> 1977 %	<u>Fiscal</u> <u>Year</u> 1978 %	<u>From Inception</u> <u>8/31/73 to</u> <u>6/30/78 %</u>
Montana	8.60	19.08	4.00	3.30	6.18
A.G. Becker 1st Quartile*	5.70	11.57	2.30	4.90	N.A.
A.G. Becker Median	3.10	8.07	-2.60	2.30	N.A.
S & P 500	4.70	14.03	0.60	0.10	2.63
Dow Jones Industrial Average	2.50	19.04	-4.40	-5.40	3.24

BONDS:

	<u>2 Years</u> 1977-78	<u>Fiscal</u> <u>Year</u> 1977 %	<u>Fiscal</u> <u>Year</u> 1978 %
Montana (total)	7.10	15.10	-0.30
A.G. Becker 1st Quartile	7.70	13.80	2.60
A.G. Becker Median	7.00	12.80	1.50
Lehman Brothers Kuhn-Loeb Index**	7.50	15.10	0.40
Salomon Brothers Index***	6.90	15.15	-0.80
Public Employees' Retirement	7.40	15.10	0.00
Teachers' Retirement	7.30	14.40	0.60
Trust & Legacy	6.50	16.20	-2.50
Workers' Compensation	7.20	13.90	0.90

*The A.G. Becker sample includes over 3,000 managed funds throughout the country. The sample is ranked by performance results. For example, the 1st quartile figures are the minimum return generated by the top 25 percent of the sample; said differently, 75 percent of all money managers surveyed had returns below this figure.

**This index is comprised of all publicly issued, non-convertible, domestic debt of industrial, utility, and financial issuers. Bonds included have a rating of at least Baa by Moody's or BBB by Standard & Poor's. In the case of bank bonds, the minimum rating is BBB by Fitch. Debt maturing within one year is omitted. The minimum outstanding par value is \$1,000,000. Currently, there are 4,172 issues included in the index.

***This index is comprised of all non-convertible industrial and utility bonds which were originally publicly offered with a maturity of 1988 or later, a Standard & Poor's quality rating of AAA or AA, and an outstanding par value of at least \$25,000,000. Currently, there are 720 issues in the index.

FINANCIAL STATEMENTS

AUDITOR'S OPINION

To the Legislative Audit Committee of the Montana State Legislature:

We have examined the statements of investments managed by the State of Montana Board of Investments, All Funds, Excluding the Short-Term Investment Pool, as of June 30, 1978 and 1977, and the related statements of investment income and changes in investments managed for the years that ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the investments managed by the State of Montana Board of Investments, All Funds, Excluding the Short-Term Investment Pool, as of June 30, 1978 and 1977, and its investment income and the changes in its investments managed for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Our examination has been made primarily for the purpose of forming the opinion stated in the preceding paragraph. The portfolio information as of June 30, 1978, contained in the supplement to the 1977-1978 Fiscal Year Report of the State of Montana Board of Investments, although not considered necessary for a fair presentation of the aforementioned financial statements, is presented as supplementary information and has been subjected to the audit procedures applied in the examination of the basic financial statements. In our opinion, the portfolio information is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

ARTHUR ANDERSEN & CO.

Boise, Idaho

September 21, 1978

**STATE OF MONTANA BOARD OF INVESTMENTS
ALL FUNDS, EXCLUDING THE SHORT-TERM INVESTMENT POOL**

**STATEMENT OF INVESTMENTS MANAGED
JUNE 30, 1978 AND 1977**

	1978	1977
Investments managed at book value (current value of \$588,267,503 in 1978 and \$540,770,863 in 1977) (Note 2)	\$625,595,682	\$542,638,554
Dividends and interest receivable	10,124,068	8,495,357
Net unamortized deferred losses on bond swaps (Note 2)	5,397,906	6,453,323
Interest purchased receivable	81,966	154,031
Total investments managed	\$641,199,622	\$557,741,265

**STATE OF MONTANA BOARD OF INVESTMENTS
ALL FUNDS, EXCLUDING THE SHORT-TERM INVESTMENT POOL**

**STATEMENT OF INVESTMENT INCOME
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977**

	1978	1977
INCOME:		
Interest income	\$ 41,841,642	\$ 35,589,090
Dividend income	1,249,591	837,562
Realized gain on sale of investments	585,428	223,816
Rental income	31,671	31,324
	43,708,332	36,681,792
EXPENSES:		
Administrative expenses	(91,455)	(79,254)
Net amortization of deferred losses on bond swaps (Note 2)	(1,124,595)	(1,152,541)
	(1,216,050)	(1,231,795)
Net investment income	\$ 42,492,282	\$ 35,449,997

The accompanying notes are an integral part
of these financial statements.

**STATE OF MONTANA BOARD OF INVESTMENTS
ALL FUNDS, EXCLUDING THE SHORT-TERM INVESTMENT POOL**

**STATEMENT OF CHANGES IN INVESTMENTS MANAGED
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977**

	<u>1978</u>	<u>1977</u>
TOTAL INVESTMENTS MANAGED, BEGINNING OF YEAR	\$557,741,265	\$477,832,425
Net investment income	42,492,282	35,449,997
Income remitted to agencies	(40,863,571)	(33,985,157)
Accrued income transferred	<u>—0—</u>	<u>9,648</u>
Increase in dividends and interest receivable	1,628,711	1,474,488
Interest purchased during the year	272,352	292,719
Interest purchased collected during the year	<u>344,417</u>	<u>(299,743)</u>
Decrease in interest purchased receivable	(72,065)	(7,024)
Net bond swap losses incurred during the year	69,179	75,599
Net amortization of deferred bond swap losses	<u>(1,124,596)</u>	<u>(1,152,541)</u>
Decrease in net unamortized deferred losses on bond swaps	(1,055,417)	(1,076,942)
Increase in book value by net amortization of discounts and premiums	727,753	752,948
Securities purchased	7,302,654,537	5,923,750,142
Securities sold and matured	<u>7,220,425,162</u>	<u>(5,844,984,772)</u>
Increase in carrying value of securities purchased	<u>82,229,375</u>	<u>78,765,370</u>
TOTAL INVESTMENTS MANAGED, END OF YEAR	<u><u>\$641,199,622</u></u>	<u><u>\$557,741,265</u></u>

The accompanying notes are an integral part
of these financial statements.

**STATE OF MONTANA BOARD OF INVESTMENTS
ALL FUNDS, EXCLUDING THE SHORT-TERM INVESTMENT POOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978**

1. HISTORY AND ORGANIZATION:

The State of Montana Board of Investments (the Board) was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The investments and the income therefrom are owned by various State of Montana agency funds and managed on their behalf by the Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Investments

Investments, except mortgages, are presented in the statement of investments managed at original cost adjusted for discount and premium amortization where applicable. Mortgages are presented in the statement of investments managed at par value. Mortgage discounts are recorded in the accounting records of the applicable administering agencies. Unrealized market loss on investments was \$35,460,488 in 1978, and unrealized market gain was \$18,950,522 in 1977. Current values for publically traded securities are determined primarily by reference to market prices supplied to the Board by various brokerage houses. The investments managed relate principally to investments which will be held to maturity or otherwise disposed of at no significant loss to the fund.

Premiums and discounts are amortized using the straightline method over the life of the securities. An average life of eight years is used for amortization of mortgage discounts.

Bond Swaps

Bond swaps involve trading one security for another security having the same par value for the purpose of enhancing portfolio content and/or yield. The Board defers gains and losses resulting from bond swaps and amortizes such gains and losses over the shorter of either the remaining life of the bonds sold or the bonds purchased for replacement. As shown in the accompanying financial statements at June 30, 1978 and 1977, the accumulated net unamortized deferred losses on bond swaps aggregated \$5,397,906 in 1978, and \$6,453,323 in 1977. The net amortization of the deferred losses totaled \$1,124,595 in 1978, and \$1,152,541 in 1977.

3. INVESTMENTS NOT CONTROLLED:

Mortgages, buildings, and land, the cost of which are included in investments managed in the accompanying financial statements, are not under direct control of the Board. The agencies administering these assets maintain control and provide the Board with the necessary financial information. Rental income from these buildings and interest income from the mortgages are included in the statement of investment income; however, occupancy and depreciation charges relating to the buildings are not included in the statement of investment income.

The book value of these assets included in investments managed in the accompanying financial statements at June 30, 1978 and 1977 are as follows:

	1978	1977
Mortgages	\$ 56,301,777	\$ 50,167,756
Land and Buildings	308,530	317,312

AUDITOR'S OPINION

To the Legislative Audit Committee of the Montana State Legislature:

We have examined the statements of investments managed by the State of Montana Board of Investments, Short-Term Investment Pool as of June 30, 1978 and 1977, and the related statements of investment income and distributions and changes in investments managed for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the investments managed by the State of Montana Board of Investments, Short-Term Investment Pool, as of June 30, 1978 and 1977, and its investment income and distributions and the changes in its investments managed for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Our examination has been made primarily for the purpose of forming the opinion stated in the preceding paragraph. The portfolio information as of June 30, 1978, contained in the supplement to the 1977-1978 Fiscal Year Report of the State of Montana Board of Investments, although not considered necessary for a fair presentation of the aforementioned financial statements, is presented as supplementary information and has been subjected to the audit procedures applied in the examination of the basic financial statements. In our opinion, the portfolio information is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

ARTHUR ANDERSEN & CO.

Boise, Idaho

September 21, 1978

**STATE OF MONTANA BOARD OF INVESTMENTS
SHORT-TERM INVESTMENT POOL**

**STATEMENT OF INVESTMENTS MANAGED
JUNE 30, 1978 AND 1977**

	<u>1978</u>	<u>1977</u>
Cash	\$ 14,427	\$ 11,794
Interest receivable	2,733,273	2,161,817
Investments managed at current value (cost of \$170,717,487 and \$165,007,735 respectively) (Note 2)	<u>168,415,515</u>	<u>167,481,198</u>
Total assets	171,163,215	169,654,809
Accrued expenses	<u>(20,401)</u>	<u>(17,807)</u>
Value of units	171,142,814	169,637,002
Income due participants	<u>(1,091,227)</u>	<u>(958,692)</u>
Net asset value	<u>\$170,051,587</u>	<u>\$168,678,310</u>
Units outstanding	170,781	164,699
Unit value	\$ 1,002.12	\$ 1,029.98

The accompanying notes are an integral part
of these financial statements.

**STATE OF MONTANA BOARD OF INVESTMENTS
SHORT-TERM INVESTMENT POOL**

**STATEMENT OF CHANGES IN INVESTMENTS MANAGED
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977**

	<u>1978</u>	<u>1977</u>
Net asset value, beginning of year	\$168,678,310	\$166,086,163
Units purchased by participants	61,494,093	71,392,958
Changes in current value of investments managed	(4,775,434)	1,202,234
Units sold by participants	<u>(55,345,382)</u>	<u>(70,003,045)</u>
Net asset value, end of year	<u>\$170,051,587</u>	<u>\$168,678,310</u>

The accompanying notes are an integral part
of these financial statements.

**STATE OF MONTANA BOARD OF INVESTMENTS
SHORT-TERM INVESTMENT POOL**

**STATEMENT OF INVESTMENT INCOME AND DISTRIBUTIONS
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977**

	1978	1977
Interest income	\$ 12,384,874	\$ 11,502,634
Realized gain on sale of investments	31,744	178,618
Income before administrative expenses	12,416,618	11,681,252
Administrative expenses (Note 2)	(216,548)	(214,899)
Net income	12,200,070	11,466,353
Income purchased by participants	951,632	1,174,207
Income due participants, beginning of year	958,692	1,061,319
Income available for distribution	14,110,394	13,701,879
Income distributed on units sold (Note 2)	1,013,153	1,196,889
November distribution (Note 2)	5,841,627	5,916,930
May distribution (Note 2)	6,164,387	5,629,368
Total distributions	13,019,167	12,743,187
Income due participants, end of year	\$ 1,091,227	\$ 958,692

The accompanying notes are an integral part
of these financial statements.

**STATE OF MONTANA BOARD OF INVESTMENTS
SHORT-TERM INVESTMENT POOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978**

1. HISTORY AND ORGANIZATION:

The State of Montana Board of Investments (Board) was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Short-Term Investment Pool (STIP) provides a short-term investment vehicle to participants (state and local governmental units) with a relatively small amount to invest. Investment in STIP affords the participant liquidity and a return on their investment. The investments and the income of STIP are owned by the participants as they purchase units and are managed on their behalf by the Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Administrative Expenses

Administrative expenses incurred by the Board are charged to STIP daily based on the Board's expenses applicable to STIP.

Income Distribution

The value of units purchased or sold includes a daily computation of net asset value and income and therefore, income to point of sale is included in proceeds to the seller. Cash distributions of income are made to continuing participants on the last working day in the months of May and November. The amounts shown for units purchased and sold by participants are net of income purchased and income sold, respectively.

Investments

Investments are presented in the statement of investments managed at current market value. Gains and losses on bond swaps are accounted for on the completed transaction method and are therefore currently included in income. Current values for publically traded securities are determined primarily by reference to market prices supplied to the Board by various brokerage houses.

**SCHEDULE A
SOURCE OF INVESTMENTS**

Other Retirement Funds:	<u>1976-1977</u>	<u>1977-1978</u>
Highway Patrol Retirement Fund	\$ 4,075,317	\$ 4,847,596
Statewide Police Reserve Fund	3,769,023	3,901,891
Sheriffs' Retirement Fund	2,961,357	3,793,720
Game Wardens' Retirement Fund	1,951,672	2,173,693
Montana Judges' Retirement Fund	1,647,816	2,043,115
TOTAL	<u>\$ 14,405,185</u>	<u>\$ 16,760,015</u>

Various University Funds:	<u>1976-1977</u>	<u>1977-1978</u>
Montana State University	\$ 5,674,701	\$ 5,051,842
University of Montana	1,568,094	2,039,879
Montana Tech	675,519	665,180
Eastern Montana College	559,952	583,488
Western Montana College	—0—	274,106
Northern Montana College	137,182	233,136
TOTAL	<u>\$ 8,615,448</u>	<u>\$ 8,847,631</u>

Other Funds:	<u>1976-1977</u>	<u>1977-1978</u>
Trust Contractors' License Refund Fund	\$ 4,598,436	\$ 5,703,916
Local Impact Fund	6,394,254	3,893,859
Agency Insurance Fund	—0—	3,440,579
Hail Insurance Fund	2,248,976	2,840,988
Volunteer Fireman's Fund	1,686,550	1,845,282
Woodville Highway Replacement Fund	—0—	1,840,430
Subsequent Injury Fund	1,370,862	1,807,564
Highway Complex Sinking Fund	727,736	1,218,884
Coal Tax Park Acquisition Fund	757,615	1,173,486
Land & Resource Development Fund	825,351	927,814
Highway Complex Headquarters Fund	3,901,280	764,577
Montana Rural Rehabilitation Fund	328,350	424,831
Flood Insurance Fund	—0—	249,172
Wheat Research & Marketing Fund	176,860	221,260
Agriculture-Grain Services Fund	—0—	212,181
Livestock-Inspection & Control Fund	71,330	173,575
Board of Oil & Gas Fund	47,957	145,760

Agriculture-Commercial Feed ERA Fund	—0—	115,711
Foster Children Fund	—0—	89,273
Donable Property Fund	83,370	83,370
Uninsured Employers' Fund	—0—	72,434
Livestock-Animal Health ERA Fund	—0—	60,523
Agriculture-Commercial Feed ERA Fund	—0—	52,637
Livestock Commission-Emergency Fund	32,473	42,731
Water & Waste Water Operators' Fund	16,160	16,213
Renewable Resources Fund	1,124,495	—0—
Occupational Disease Fund	53,502	—0—
Water Well Fund	8,000	—0—
TOTAL	<u>\$ 24,453,557</u>	<u>\$ 27,417,050</u>

Other STIP*:	<u>1976-1977</u>	<u>1977-1978</u>
County Funds	\$ 10,759,154	\$ 12,545,321
City Funds	5,014,535	6,821,803
Fire Department Relief Associations	3,550,210	3,805,083
School Funds	8,134	9,157
TOTAL	<u>\$ 19,332,033</u>	<u>\$ 23,181,364</u>

*County and city funds not under the control of the State of Montana.

**SCHEDULE B
TYPE OF INVESTMENTS**

OTHER	<u>1976-1977</u>	<u>1977-1978</u>
Statewide Police Reserve Fund:		
City of Havre City Hall Bonds	\$ 50,000	\$ 50,000
PERS:		
ESC Building Revenue Bond	1,096,787	1,008,260
Building and Land	151,189	146,369
TRS:		
Building and Land	166,124	162,161
TOTAL	<u>\$ 1,464,100</u>	<u>\$ 1,366,790</u>

**SCHEDULE C
INVESTMENT INCOME 1977-78 FISCAL YEAR**

	CASH	CURRENT AMORTI- ZATION	NET DEFERRED GAIN or (LOSS)	STIP INCOME	MODIFIED INCOME	ACCRUED INCOME	NET INCOME
Public Employees' Retirement System Fund	\$ 13,152,720	\$ 66,042	\$ (24,341)	\$	\$ 13,194,421	\$ 325,968	\$ 13,520,389
Treasurer's Fund	3,200,497			7,446,942	10,647,439	180,340	10,827,779
Teachers' Retirement System Fund	10,598,990	130,069	(16,678)		10,712,381	386,058	11,098,439
Trust & Legacy Fund	6,161,482	474,069	(996,273)		5,639,278	263,677	5,902,955
Workers' Compensation Fund	4,265,293	48,862	(80,406)		4,233,749	116,828	350,577
Resource Indemnity Fund	680,617	1,154		14,279	696,050	58,018	754,068
Social Security Fund	605,964	104			606,068	23,607	629,675
Common School Interest & Income Fund	405,046			152,785	557,831	23,863	583,694
Long Range Building Fund	29,918	122		567,571	597,611	(15,342)	582,269
Educational Trust Fund	1,440	383		356,979	358,802	77,136	435,938
Highway Patrol Retirement Fund	336,904	3,881	(4,646)	4,050	340,189	16,340	356,529
Trust Contractors' License Refund	280,429				280,429	36,412	316,841
Statewide Police Reserve Fund	292,337	254		9,077	301,668	10,361	312,029
Local Impact Fund				303,813	303,813	(6,283)	297,530
Sheriffs' Retirement Fund	254,052	451		13,184	267,687	11,502	279,189
Montana State University	26,874			246,139	273,013	2,773	275,786
Long Range Building Sinking Fund	217,835	368			218,203	11,982	230,185
Hail Insurance Fund	39,241	21		138,023	177,285	4,707	181,992
Permanent Coal Trust Fund	66,790	246		19,744	86,780	90,586	177,366
Agency Insurance Fund				150,534	150,534	20,870	171,404
Game Wardens' Retirement Fund	145,838	238	(778)	4,562	149,860	5,504	155,364
Montana Judges' Retirement Fund	134,106	6	78	4,612	138,802	5,888	144,690
Volunteer Fireman's Fund	132,768	607	(1,551)	3,328	135,152	4,235	139,387
Highway Complex Headquarters Fund				155,429	155,429	(17,692)	137,737
Subsequent Injury Fund	122,814	594		3,718	127,126	10,277	137,403
University of Montana	6,632	185		115,707	122,524	2,586	125,110
Federal Revenue Sharing, Cap. Const. Fund				86,697	86,697	(9,966)	76,731
Highway Building Complex Sinking Fund	60,957	37			60,994	10,069	71,063
Coal Tax Park Acquisition Fund				64,749	64,749	2,865	67,614
Renewable Resources Fund				68,340	68,340	(6,095)	62,245
Lands & Resource Development Fund				54,138	54,138	560	54,698
Montana Tech				43,319	43,319	(714)	42,605
Woodville Highway Replacement Fund				30,851	30,851	10,994	41,845
Eastern Montana College	17,912	13		17,520	35,445	616	36,061
Montana Rural Rehab. Fund				27,353	27,353	703	28,056
Northern Montana College	698	36		15,111	15,845	631	16,476
William Murphy Fund	14,067			1,056	15,123	(14)	15,109
Wheat Research & Marketing Fund				13,322	13,322	335	13,657
Livestock Commission-Inspection & Control				11,359	11,359	644	12,003
Western Montana College				9,927	9,927	1,675	11,602
Flood Insurance Fund				8,928	8,928	1,514	10,442
Agriculture-Grain Services Fund				8,813	8,813	1,292	10,105
Deaf & Blind Bequest Fund	2,848			222	3,070	3,477	6,547

SCHEDULE C (continued)

	CASH	CURRENT AMORTI- ZATION	NET DEFERRED GAIN or (LOSS)	STIP INCOME	MODIFIED INCOME	ACCRUED INCOME	NET INCOME
Donable Property Fund				5,906	5,906	30	5,936
Board of Oil & Gas Fund				4,954	4,954	617	5,571
Agriculture-Commercial Feed ERA Fund				4,740	4,740	705	5,445
Foster Children Fund				3,208	3,208	544	3,752
Livestock Commission-Animal Health Emerg. Fund				3,182	3,182	73	3,255
Dixon Endowment Fund	3,830				3,830	(960)	2,870
Livestock Commission-Animal Health ERA Fund				2,282	2,282	371	2,653
Agriculture-Commercial Fertilizer Fund				1,560	1,560	321	1,881
T.R.S. Minnie Fullam Fund	1,204	11		120	1,335	43	1,378
Water & Waste Water Operators' Fund				1,267	1,267	6	1,273
Uninsured Employers' Fund				839	839	354	1,193
Occupational Disease Fund				257	257	(116)	141
Water Well Fund	309				309	(233)	76
Other STIP				1,508,193	1,508,193	32,074	1,540,267
TOTAL	<u>\$ 41,260,412</u>	<u>\$ 727,753</u>	<u>\$ (1,124,595)</u>	<u>\$ 11,708,689</u>	<u>\$ 52,572,259</u>	<u>\$ 1,704,616</u>	<u>\$ 54,276,875</u>

**SCHEDULE D
SUMMARY OF BOND SWAPS
FOR FISCAL YEAR 1977-78**

FUND:	PAR SOLD	PAR ACQUIRED	REALIZED GAIN or (LOSS)	DEFERRED GAIN or (LOSS)
Public Employees' Retirement System Fund	\$ 2,650,000	\$ 2,650,000	\$ (132,564)	\$ (773)
Teachers' Retirement System Fund	1,343,000	1,343,000	52,565	3,290
Workers' Compensation Fund	950,000	950,000	21,876	410
Trust & Legacy Fund	250,000	250,000	(10,048)	(108)
Game Wardens' Retirement Fund	20,000	20,000	(1,008)	(15)
TOTAL	<u>\$ 6,213,000</u>	<u>\$ 6,213,000</u>	<u>\$ (69,179) (1)</u>	<u>\$ 2,804 (2)</u>

- (1) If the completed transaction method were used for gains and losses on bond swaps.
(2) Based on the deferral method of accounting for gains and losses on bond swaps.

**SCHEDULE E
UNAMORTIZED DEFERRED
GAINS or (LOSSES) ON BOND SWAPS
As of June 30, 1978**

FUND:	BALANCE
Trust & Legacy Fund	\$ (4,469,135)
Workers' Compensation Fund	(469,979)
Teachers' Retirement System Fund	(127,944)
Public Employees' Retirement System Fund	(274,653)
Highway Patrol Retirement Fund	(49,277)
Game Wardens' Retirement Fund	(5,239)
Volunteer Fireman's Fund	(1,744)
Montana Judges' Retirement Fund	65
TOTAL	<u>\$ (5,397,906)</u>

STATE OF MONTANA BOARD OF INVESTMENTS GENERAL FOOTNOTES

Total Investments

The total STIP investments as included in the graphs, Type of Investments and Total Investments at Cost differs from the STIP investments as included in the graph Source of Investments by the amount of \$1,835,108. The first two graphs show the Board's original cost of the STIP portfolio while the latter graph shows the participant's cost of the STIP units. STIP units are sold to the participants at the current market value of the STIP portfolio plus any accrued earnings as of the date the participants joined the investment pool.

Portfolio Yield

The yields for the Treasurer's Fund and STIP are calculated by determining the daily average invested balances and dividing this into net income for the fiscal year. All other portfolio yields are calculated as follows: two times net income divided by the beginning and ending asset balances less net income.

Modified Income

The graph Investment Income has been prepared on the modified income basis for comparison purposes. Modified income is cash income adjusted for the amortization of premiums and accrual of discounts and the deferral of gains or losses on bond swaps. The difference between modified income and net income on the accrual basis is \$1,704,616 for fiscal 77-78 as shown in Schedule C.



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